

Message Text

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ACTION EB-11

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LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08 CEA-02 H-03

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TAGS: ECON, EFIN, BE

SUBJECT: GOB BUDGET, TAX INCREASE AND ANTI-INFLATION MEASURES

1. SUMMARY: IN FACE OF STEEP PRICE INFLATION AND SIZABLE PROSPECTIVE 1973 BUDGET DEFICIT, GOB IS ATTEMPTING TO PUT TOGETHER BALANCED ORDINARY BUDGET FOR 1974 (FY EQUALS CY) AS WELL AS SET OF ANTI-INFLATION MEASURES. PARLIAMENT RECENTLY PASSED CORPORATE INCOME TAX RATE INCREASE TO HELP MEET BUDGET DEFICIT EVEN THOUGH THIS MAY HAVE INFLATIONARY EFFECT. END SUMMARY.

2. PRIME MINISTER LEBURTON HAS SET AS GOALS FOR GOB 1974 ORDINARY BUDGET THAT IT BE BALANCED AND NOT EXCEED 1973 EXPENDITURES BY MORE THAN 11 PERCENT. THIS YEAR'S EXPENDITURES ARE EXPECTED TO BE BF 448.6 BILLION (INCLUDING A BF FIVE BILLION UNANTICIPATED SUPPLEMENTARY PAYMENT TO FEOGA), LEAVING A DEFICIT OF BF 12.6 BILLION. PRESENT MINISTERIAL BUDGET SUBMISSIONS TOTAL BF 517.2 BILLION (22.4 PERCENT OVER 1973 ESTIMATES)

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AND THESE WILL HAVE TO BE REDUCED TO BF 472 BILLION. LEBURTON

RELEASED FOR VACATION ONLY THOSE FEW MINISTERS WHOSE 1974 SUB-MISSION WAS NOT MORE THAN 12 PERCENT ABOVE ESTIMATED 1973 EXPENDITURES. TO THE BF 472 BILLION WOULD BE ADDED SOME BF 25.4 BILLION IN EXTRA BUDGETARY EXPENDITURES. SMALLEST PROPOSED INCREASE WAS ECONOMICS MINISTRY (2.5 PERCENT) WHILE LARGEST ARE IN AREAS OF SOCIAL SERVICES. DEFENSE MINISTRY INCREASE IS 11.2 PERCENT.

3. AFTER LONG DISCUSSIONS IN CABINET AND NATIONAL COMMITTEE ON ECONOMIC EXPANSION (GROUPING GOVERNMENT, LABOR AND BUSINESS REPRESENTATIVES), GOB HAS DECIDED ON SET OF ANTI-INFLATION MEASURES, WHICH HAVE STILL TO BE WORKED OUT IN DETAIL. THESE ARE LARGELY TIGHTENING UP OF CONSUMER CREDIT TERMS (INCLUDING INSTALLMENT PLAN PURCHASES) BUT REPORTEDLY ALSO INCLUDE A "STERILIZATION" OF THREE PERCENT OF EXPORT RECEIPTS IN BELGIAN NATIONAL BANK ACCOUNTS. ECONOMICS MINISTER CLAES WILL MAKE A PROPOSAL WITHIN NEXT FEW WEEKS ON "STERILIZATION", WHICH MAY BE SELECTIVE AS TO PRODUCTS EXPORTED. THIS MEASURE HAS BEEN STRONGLY OPPOSED BY MANAGEMENT ORGANIZATIONS, ESPECIALLY FABRIMETAL, WHICH POINTS OUT THAT ITS MEMBER COMPANIES EXPORT 63 PERCENT OF THEIR PRODUCTION, THAT IT WILL SIMPLY HAVE TO BORROW EQUIVALENT TO THREE PERCENT STERILIZED, AND THAT THERE WOULD BE A DEPRESSING EFFECT ON EMPLOYMENT.

4. THERE HAS BEEN CONSIDERATION AS WELL OF CUTTING BACK ON GOB SUBSIDIES FOR INVESTMENT AND EXPORT FINANCING, BUT NO DECISION ON THIS APPEARS TO HAVE YET BEEN TAKEN. USE MAY ALSO BE MADE OF PRICE CONTROL MECHANISM TO DELAY PRICE INCREASES BEYOND PRESENT MAXIMUM FIVE MONTH WAITING PERIOD AFTER APPLICATION.

5. PARLIAMENT PASSED LAW (WHICH CAME INTO FORCE JUNE 25) INCREASING CORPORATE INCOME TAX RATES FROM 37.8 PERCENT TO 42 PERCENT ON PROFITS OVER BF THREE MILLION, FROM 34.8 PERCENT TO 36 PERCENT ON PROFITS BETWEEN BF ONE AND THREE MILLION AND FROM 29 TO 31 PERCENT ON PROFITS LESS THAN BF ONE MILLION. EARLIER DISCUSSION HAD CONCERNED THOROUGH-GOING TAX REFORM BILL ON PERSONAL INCOME TAX, BUT GOB APPARENTLY FEELING NEED TO MEET IMPENDING 1973 BUDGET DEFICIT AND 1974 BUDGET INCREASE, OPTED TO TAX CORPORATIONS. AS CONSERVATIVE PRESS HAS POINTED OUT, TAX INCREASE WILL NO DOUBT BE PASSED ALONG TO CUSTOMERS, THUS FUELING INFLATIONARY FIRES. BOOCHEVER
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